



U.S. Department of Justice

*United States Attorney
Eastern District of Wisconsin*

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Milwaukee, WI 53202

PRESS RELEASE

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Five People Charged in \$14 Million Dollar Mortgage Fraud

Acting United States Attorney Michelle L. Jacobs announced today that a federal grand jury in the Eastern District of Wisconsin returned a twenty four count indictment charging five people with wire fraud and money laundering in connection with a mortgage fraud scheme. Charged were Paul J. Zaleski, 60, formerly of Richmond, Illinois; Michael Pembroke, 45, of Twin Lakes, Wisconsin; John F. Hochrek, Jr., 48, of Spring Grove, Illinois; Patricia Lynn Kay, 47, of Kenosha, Wisconsin; and Robert Farrell, 29, formerly of Richmond, Illinois.

According to the indictment Zaleski, is alleged to be the leader and organizer of the scheme. He is charged with 17 counts of wire fraud in violation of Title 18, United States Code, Section 1343 and five counts of money laundering in violation of Title 18, United States Code, Sections 1956 and 1957. Pembroke and Kay are each charged with five counts of wire fraud and one count of money laundering. Hochrek is charged with seven counts of wire fraud, and Farrell, with six counts of wire fraud. If convicted, each defendant faces up to 20 years in prison for each wire fraud offense and up to 30 years in prison for each money laundering offense.

The indictment alleges that Zaleski orchestrated the purchase of at least 40 real estate properties by straw buyers who were led to believe that they were acting as members of an investment group. In order to secure mortgage loans, Zaleski and Farrell, working as loan originators at First Security Financial Services in Kenosha, Wisconsin, prepared fraudulent loan applications in the names of the buyers. The applications contained, among other false representations, inflated appraisals, some of which were prepared by Hochrek. The purpose of the scheme was to funnel mortgage funds to Silver Creek Investments, Northpointe Development and Lakeside Property Management, all shell companies that were controlled by Zaleski, Pembroke and Kay.

The indictment also alleges that fraudulently obtained funds were subsequently laundered in transactions that involved the inducement of straw buyers and the purchase of additional properties.

Over the course of a two year period, numerous mortgage lenders advanced more than \$14 million in fraudulently procured funds, at least \$2 million of which was deposited into accounts for the shell companies. The loans subsequently went into default and foreclosure.

An initial appearance for Pembroke, Hochrek and Kay has been scheduled for May 14, 2009 before Judge William E. Callahan, Jr. Zaleski and Farrell have been arrested in California and are awaiting return to Wisconsin.

The case was investigated by Internal Revenue Service, Criminal Investigation Division and the Federal Bureau of Investigation. The case is being prosecuted by Assistant U.S. Attorney Carol L. Kraft.

According to Acting United States Attorney Michelle Jacobs “this case, and others like it, have serious ramifications not only for the defrauded lenders but also for the residents of the neighborhood where the properties are located. This demonstrates the commitment we all share to protect consumers from fraud and help to ensure the integrity of the mortgage market and other credit markets”. She also commended the work of the law enforcement agencies involved in this lengthy investigation.

It should be noted that an indictment is merely the formal method of charging an individual and does not constitute inference of his or her guilt. An individual is presumed innocent until such time, if ever, that the government establishes his or her guilt beyond a reasonable doubt.

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